

# Guidance Point

RETIREMENT  
SERVICES, LLC

## Capital Markets Review

As of December 31, 2016

---

This page intentionally left blank.

Enclosed charts created using MPI Stylus© except where noted.



**Guidance  
Point** RETIREMENT  
SERVICES, LLC

# Fourth Quarter '16 Capital Markets Headlines

## A Tale of Two Halves

- ✦ 2016 can be described as a Tale of Two Halves. Many investors took a “risk-off” approach to the markets in the first half of the year due to a decline in oil prices and slow growth in both China and the US. The second half of the year saw a “risk-on” sentiment as many of the first half factors stabilized or improved in the second half. US Small Cap equities outperformed all other asset classes, up nearly 22%, while US Large Cap Equities were up almost 12%. Core Fixed Income, REITs, and other interest rate sensitive sectors were negatively impacted by the second half rising of interest rates and increased expected inflation and economic growth.
- ✦ Looking to 2017, many economists expect global growth and inflation to improve. Concurrently, corporate earnings growth are expected to improve their levels in the upcoming year while interest rate sensitive assets may still face headwinds from three signaled interest rate increase from the Federal Reserve Bank.

## US Economic News

- ✦ The US Economy continues to show resilience seven years into a recovery. Employment, with an average of 176,000 jobs added each month, has been steadily improving. The housing market remains strong, consumer confidence hovers at high levels, and energy prices show signs of advancement. Third quarter GDP is estimated to be +3.5%, higher than the prior +3.2% previous estimate and +1.4% reading of the second quarter.

## Equities

- ✦ Dispersion in returns for equities has been increasing through 2016 as the ten primary economic sectors generated a wide variance in performance. Within Large Cap styles, Value significantly outperformed Growth stocks where traditional Value sectors such as financials, energy and industrials led the index. International stocks generated worse performance than US equities overall as the surprise results of the US presidential election has raised concerns about protectionist US trade policies.

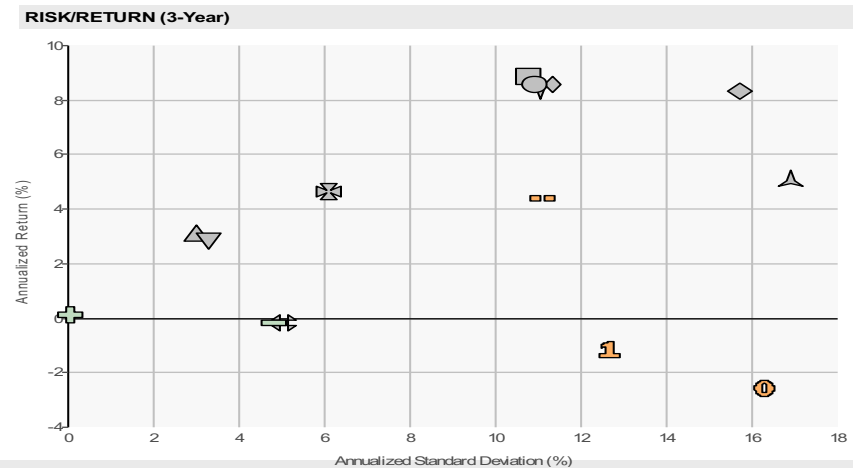
## Fixed Income

- ✦ Anticipation of a hike in the fed funds rate, an improving economic outlook, and record equity prices were a few of the key drivers of fixed income performance in 2016. These factors were strong enough to allow the FOMC to follow through on their desire to normalize interest rates, and much of the fixed income yield curve continued to accelerate its rise after the election results were realized. A difference realized in the fourth quarter was the steepening of the yield curve as longer term interest rates rose. By the end of 2016, the 10-year US Treasury note rose to a yield of 2.45% from 1.60% on September 30<sup>th</sup>.

# Capital Markets Performance Review

The chart to the right plots each major market index based on level of return and risk achieved over the previous 3 year period.

The combination of these assets on this table make up the efficient frontier, one of the foundational principles behind Modern Portfolio Theory.



## INDEX PERFORMANCE SUMMARY (Sorted by trailing 3Yr performance)

	1M	3M	YTD	1 Year	3 Years	5 Years	10 Years
<b>Equity</b>							
□ S&P 500	1.98	3.82	11.96	11.96	8.87	14.66	6.95
○ Russell 1000 Value	2.50	6.68	17.34	17.34	8.59	14.80	5.72
◇ Russell 1000 Growth	1.24	1.01	7.08	7.08	8.55	14.50	8.33
∇ Russell 3000	1.95	4.21	12.74	12.74	8.43	14.67	7.07
◇ Russell 2000 Value	4.13	14.07	31.74	31.74	8.31	15.07	6.26
△ Russell 2000 Growth	1.36	3.57	11.32	11.32	5.05	13.74	7.76
<b>International</b>							
▣ MSCI The World	2.43	1.97	8.15	8.15	4.38	11.04	4.41
⌚ MSCI EAFE	3.44	-0.68	1.51	1.51	-1.15	7.02	1.22
⊙ MSCI Emg Markets	0.22	-4.16	11.19	11.19	-2.55	1.28	1.84
<b>Fixed Income</b>							
⊕ ML 3-Month T-Bill	0.04	0.09	0.33	0.33	0.14	0.12	0.80
▢ Citi WorldBIG	-0.33	-6.64	1.95	1.95	-0.18	0.29	3.36

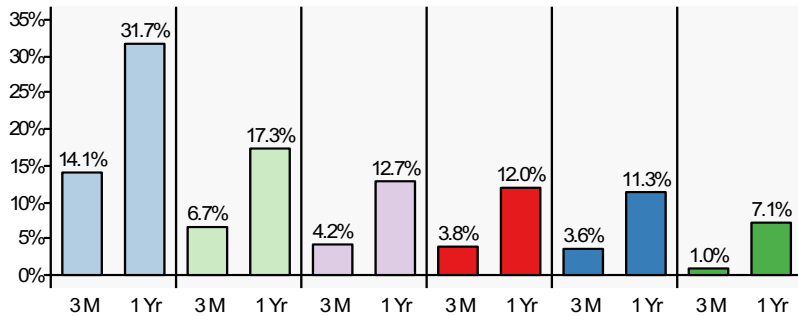
Past performance is no guarantee of future results. Current returns may be higher/lower. Principal value/returns fluctuate. Investor shares may be worth more/less than original cost. Returns assume reinvestment of all distributions at NAV & deduction of fund expenses. YTD returns are cumulative & not annualized. For current month-end returns: <http://advisor.morningstar.com/familyinfo.asp>.



**Guidance Point**  
RETIREMENT SERVICES, LLC

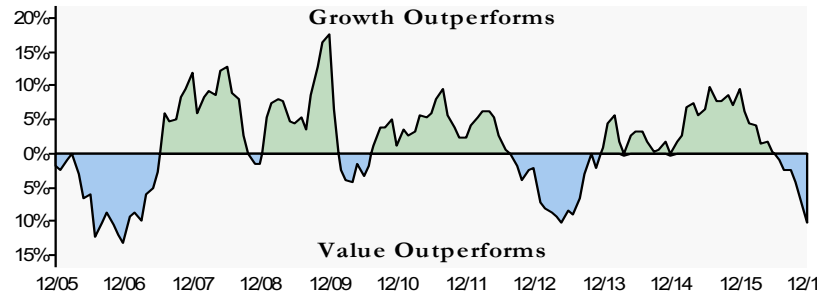
# US Equity Review

INDEX PERFORMANCE (Sorted by trailing 3M performance)



	1 M	3 M	YTD	1 Yr	3 Yr	5 Yr
Russell 2000 Value	4.13	14.07	31.74	31.74	8.31	15.07
Russell 1000 Value	2.50	6.68	17.34	17.34	8.59	14.80
Russell 3000	1.95	4.21	12.74	12.74	8.43	14.67
S&P 500	1.98	3.82	11.96	11.96	8.87	14.66
Russell 2000 Growth	1.36	3.57	11.32	11.32	5.05	13.74
Russell 1000 Growth	1.24	1.01	7.08	7.08	8.55	14.50

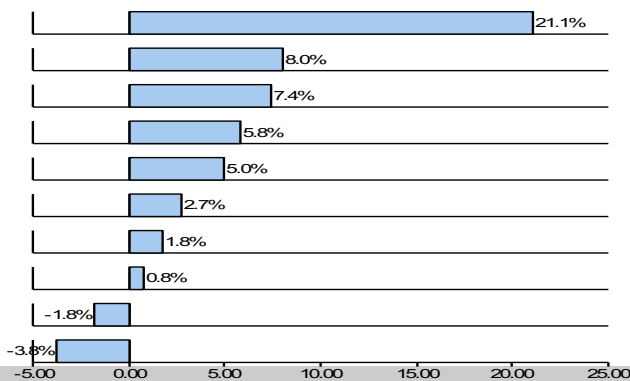
GROWTH VS. VALUE



Within the last 1 Year, value stocks outperformed growth stocks by 10.26%.  
For the trailing 3 months, value stocks outperformed growth stocks by 5.67%.

The graph above is plotted using a rolling one year time period. Growth stock performance is represented by the Russell 1000 Growth Index. Value stock performance is represented by the Russell 1000 Value Index.

SECTOR (Sorted by trailing 3M performance)



	1 M	3 M	YTD	1 Yr	3 Yr	5 Yr
Financials	4.03	21.09	24.28	24.28	12.34	19.30
Industrials	0.63	7.99	20.41	20.41	8.31	15.88
Energy	1.80	7.42	27.31	27.31	-3.41	3.35
Materials	0.04	5.83	21.70	21.70	5.24	11.36
Telecommunication Svcs.	8.09	4.96	23.41	23.41	9.59	11.66
Consumer Discretionary	0.11	2.74	6.66	6.66	8.02	17.46
Information Technology	1.65	1.77	14.78	14.78	12.97	16.37
Utilities	4.74	0.81	17.72	17.72	12.74	10.90
Consumer Staples	3.22	-1.79	5.84	5.84	9.39	12.98
Health Care	0.89	-3.79	-2.05	-2.05	9.50	17.18

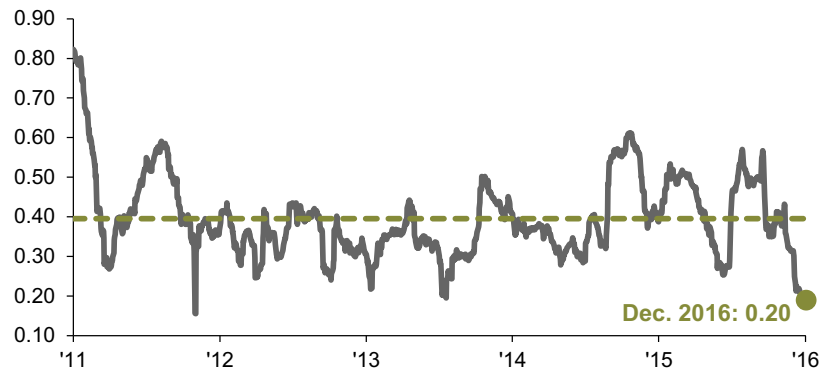
Past performance is no guarantee of future results. Current returns may be higher/lower. Principal value/returns fluctuate. Investor shares may be worth more/less than original cost. Returns assume reinvestment of all distributions at NAV & deduction of fund expenses. YTD returns are cumulative & not annualized. For current month-end returns: <http://advisor.morningstar.com/familyinfo.asp>.

# Correlation, Dispersion, & Active Management

Equities

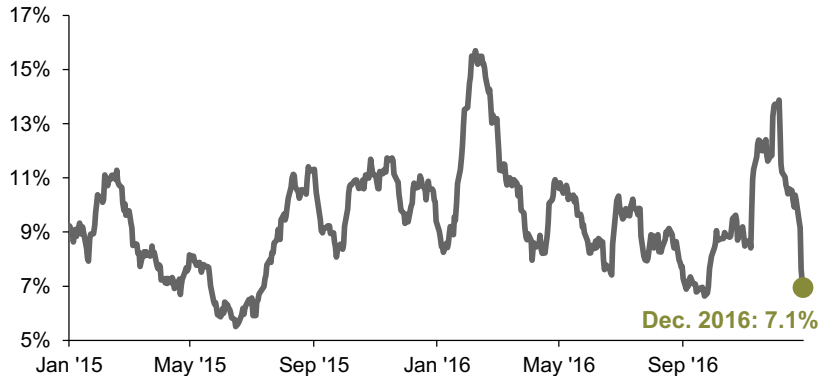
## Realized correlation

S&P 500 3-month realized correlation\*



## Dispersion of returns

Standard deviation across annual S&P 500 sector returns\*\*



## Active management and market cycles

Percentage of LCC managers outperforming\*\*\*, y/y change in S&P 500



Sources: Standard & Poor's, Bloomberg, Lipper, FactSet, J.P. Morgan Asset Management.

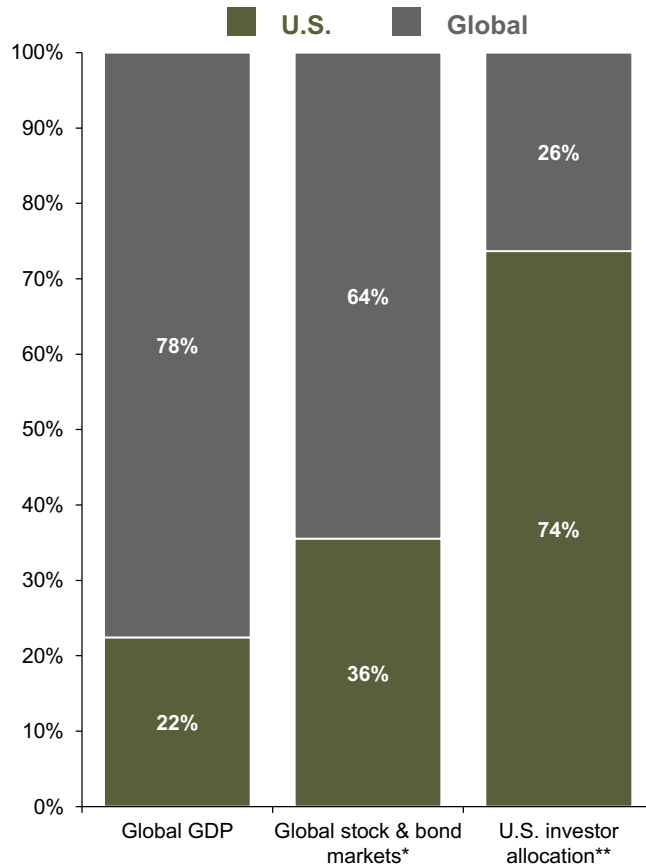
\*Realized correlation is a trailing 3-month measure of the pairwise correlation among the largest 50 stocks in the S&P 500, calculated using the realized volatilities of those stocks and the index. \*\*Return dispersion is based on a three-week moving average of the standard deviation of annual S&P 500 sector returns. \*\*\*Percentage of U.S. large cap core equity managers outperforming is based on rolling 12-month periods.

Guide to the Markets – U.S. Data are as of December 31, 2016.

# Home Bias in Equity Investing

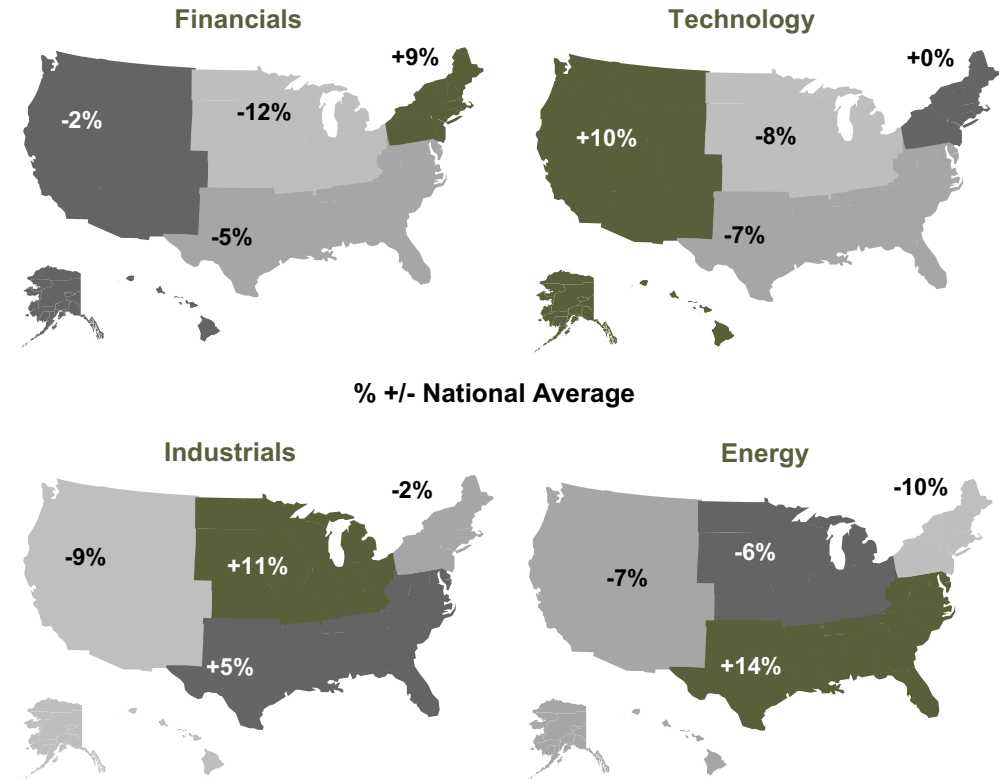
## Investment universe & U.S. investors

Percentage of total net assets, 2014



## Investor allocation by region

Likelihood of owning stocks in an industry vs. national average\*\*\*



Investing principles

Source: Openfolio, IMF, ICI, J.P. Morgan Asset Management.

\*Global stock and bond markets data are as of 2013. \*\*U.S. investor allocation is the total value of investments in global or domestic equity mutual funds and ETFs. \*\*\*Investor allocation by region is based on data collected by Openfolio. Average sector allocations at the national level are determined by looking at the sector allocations of over 20,000 brokerage accounts, and taking a simple average. Portfolio allocations are then evaluated on a regional basis, and the regional averages are compared to the national average to highlight any investor biases. Further details can be found on openfolio.com.

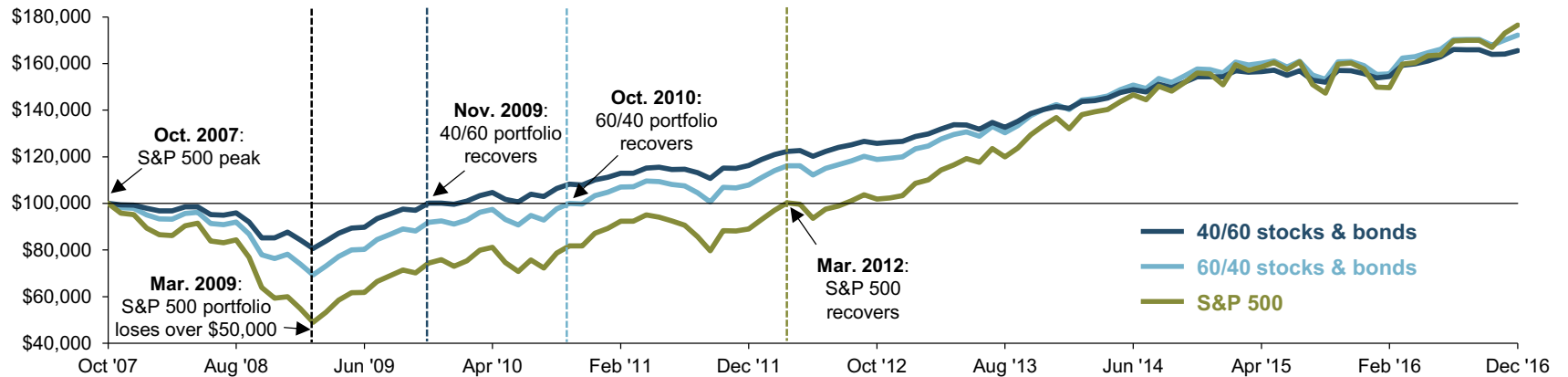
Guide to the Markets – U.S. Data are as of December 31, 2016.



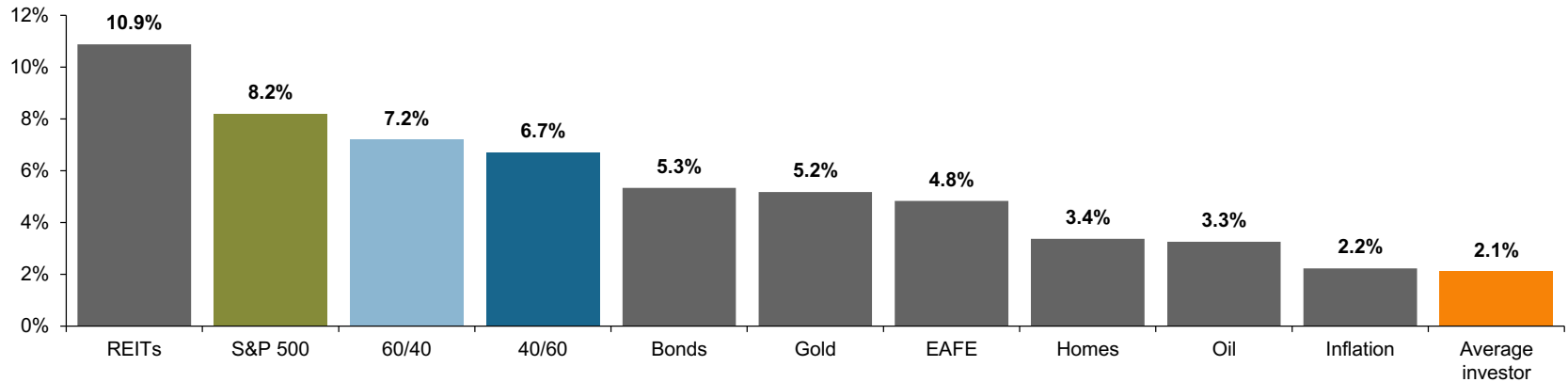
**Guidance Point** RETIREMENT SERVICES, LLC

# Diversification & the Average Investor

**Portfolio returns: Equities vs. equity and fixed income blend**



**20-year annualized returns by asset class (1996 – 2015)**



Investing principles

Source: J.P. Morgan Asset Management; (Top) Barclays, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.  
 Indexes used are as follows: REITs: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high quality U.S. fixed income, represented by the Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/15 to match Dalbar's most recent analysis.  
 Guide to the Markets – U.S. Data are as of December 31, 2016.



**Guidance Point**  
 RETIREMENT SERVICES, LLC